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**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



**ANNUAL BUDGET SUBMISSION
FY 1981**

ANDEAN REGIONAL

**DEPARTMENT
OF
STATE**

JUNE, 1979



BEST AVAILABLE

UNCLASSIFIED

ANDEAN REGIONAL PROGRAM

FY 1981 Annual Budget Submission

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TABLE I - LONG RANGE PLAN BY APPROPRIATION ACCOUNT

FY 1979 - FY 1981

(Thousands \$)

DECISION UNIT Andean Regional

DEVELOPMENT ASSISTANCE	FY 1979 EST.	FY 1980 EST.	FY 1981 Request		Planning Period				
			M	C	A	1982	1983	1984	1985
ARDN	-	100	4,900	4,900	4,900	1,000	100	300	8,000
SDA	-	-	100	100	100	9,000	1,000	10,000	300
TOTAL DA	-	100	5,000	5,000	5,000	10,000	1,100	10,300	8,300

TABLE III - PROJECT OBLIGATIONS BY APPROPRIATION ACCOUNT
FY 1979 - FY 1981
(Thousands \$)

APPROPRIATION ACCOUNT/PROJECT NO./TITLE	L/G	FY 1979	FY 1980	FY 1981	
				Minimum	Current
					AAPL
<u>ARDN</u>					
595-0000 Program Development and Support	G	-	100	100	100
595-0001 Agro-Industrial Development	L	-	-	4,500	4,500
595-0002 Development Technology Network	G	-	-	300	300
<u>SDA</u>					
595-0000 Program Development and Support	G	-	-	100	100
<u>TOTAL</u> all appropriation accounts		-	100	500	500
Grant		-	-	4,500	4,500
Loan					

AID 1330-12 (3-79)

TABLE IV PROJECT BUDGET DATA

[illegible]

Project No. and Title: 595-0001
Andean Regional Agroindustrial Development

Loan Funding:

FY 1981: \$4,500,000

Life of Project: \$4,500,000

Functional Account: Food and Nutrition

Purpose: To establish within the Andean Development Corporation (CAF) the institutional capability to identify and finance regional agro-industrial projects which benefit the Andean Region's rural poor by creating jobs and assuring stable markets for their agricultural production.

The Problem: Since the establishment of the Andean Group in 1970, it has focused its energy and attention on the removal of industrial trading barriers among member countries, control of foreign investments, and promotion of an industrial development strategy that has emphasized capital-intensive import-substitution policies.

However, confronted by massive rural poverty, growing unemployment and income inequalities, and an agricultural sector that cannot adequately supply the Andean population or its commercial/industrial sectors, the Andean Pact has begun to reassess its development and integration strategy. There is a growing awareness that to further the development of the Andean Region there is an urgent need to increase the productivity of the agricultural sector, to increase the employment and income of the rural agricultural labor force, and to achieve greater integration between the agricultural and industrial sectors. It is recognized that increased productivity of the Andean agricultural sector can also contribute to a more equitable distribution of income.

Although there is great promise for a shift in the Andean Region's policies toward a more balanced development and integration strategy that can effectively address regional agricultural and rural poverty problems, successful implementation of this new strategy will require substantial political will, difficult policy changes, and infusions of capital and technical assistance. Without adequate and timely support, the momentum behind this new initiative may be lost and, with it, an opportunity to contribute to a significant shift in Andean Regional development policies.

Response: Studies conducted by the Andean Pact confirm that one of the most promising strategies for increasing agricultural productivity and rural incomes is through development of a regionally integrated agroindustrial sector. A regional approach to agroindustry development allows integration of all participants in production, processing, and marketing where raw materials, labor supply, processing facilities and potential markets straddle national borders.

The Andean Development Corporation (CAF), the financing arm of the Andean Pact, has recently initiated a new development strategy to promote the expansion of integrated agroindustries. Four categories of agroindustrial projects will be financed, including: (1) agroindustries that serve Andean regional markets, (2) agroindustries composed of stockholders from two or more Andean countries, (3) successful national agroindustries that are prepared to expand into a second Andean country; and (4) agroindustries along the frontiers of two Andean Pact countries that must operate in both countries to be feasible.

The proposed A.I.D. loan, estimated at \$4.5 million, is designed to build on this initiative by providing technical assistance, training, and capital to the CAF to establish and administer credit for a regional agroindustrial development fund. Technical advisors in agroindustrial planning and marketing would be provided for up to two years to assist the CAF in identifying agroindustrial investment opportunities, promoting new enterprises, and developing guidelines for feasibility studies and criteria for CAF financing. In addition, A.I.D. funds will be provided to finance short-term training, seminars, and international travel for CAF officers. Up to \$500,000 will be provided for these TA and training costs. The remainder of the A.I.D. loan, \$4,000,000, will constitute seed capital for a revolving credit fund to finance new or expanding enterprises. Credit under the loan would be provided only to enterprises which meet criteria regarding rural job creation, linkages to the small farm sector, and regional integration. Both the CAF and the private sector will be expected to make sizable contributions in debt and/or equity funding of eligible projects financed under the project. The CAF will also provide necessary administrative support and technical assistance to borrowers and an additional \$5.5 million for sublending.

Beneficiaries: The project will provide direct benefits to the rural poor throughout the Andean Region in the form of new off-farm employment opportunities, assured and stable markets for agricultural production, and a more balanced supply of food products.

Project No. and Title: 595-0002
Rural Development Technology Network

Grant Funding:

FY 1981: \$300,000

Life of Project: \$1.0 million

Functional Account: Food and Nutrition

Purpose: To enhance the exchange of successful rural development technology among the member countries of the Andean Pact for the benefit of the rural poor.

The Problem: Within the various member countries of the Andean Pact, significant progress has been made in the development and application of agricultural and rural development technology over the last two decades. For example, national level research centers in agriculture and aquaculture have been established and are contributing to the development of small farmer production packages (e.g., Colombian Agriculture Research Institute - ICA; Colombian Fisheries Research Institute - INDERENA; Ecuadorean Research Institute - INIAP). The international agricultural research centers located within the Andean Region (International Center for Tropical Agriculture (CIAT) and the International Potato Center (CIP)) also are working to increase farmer productivity.

In addition to research in small farmer production, member governments have undertaken a variety of rural development initiatives directed toward improving the income or quality of life of the rural poor. Examples of these efforts include sub-tropical land colonization activities, labor-intensive construction of rural access roads, rural housing improvement, small-scale irrigation, and rural credit.

Despite the wealth of rural development experience and the demonstrated expertise of a number of national level institutions working in the area of rural technology, the horizontal transfer of technology among the countries of the Andean sub-region has been sporadic and ineffective. As a result, research and adaptation of technology in member countries may duplicate work which has been done in other countries and there is inadequate dissemination of successful (and unsuccessful) rural development initiatives.

Response: In recognition of the need to promote horizontal technology transfer among member countries, the Andean Regional Department of Agriculture and Livestock (one of the departments under the Technical Secretariat of the Andean Pact) is interested in establishing a mechanism to identify relevant rural technologies within Pact countries and make those technologies accessible to other concerned institutions within the region. The proposed project will assist the Department of Agriculture create a mechanism to facilitate technology transfer as it relates to rural development problems and to institutionalize that mechanism as an on-going activity.

The project will: (a) establish a technology transfer office within the Department of Agriculture to link potential sources of relevant technology with those institutions which could utilize the technology; (b) inventory rural technology resources in the Andean region, including agricultural research institutions and successful models of rural development interventions which impact on the rural poor; and (c) finance the initial operation of the technology network, including interchanges of information, site visits, seminars, exchange of key technicians, publication and dissemination of reports, etc.

Beneficiaries: The project ultimately should benefit the rural poor target group in the Andean region by promoting the transfer of technology which will contribute to their increased income or quality of life.

Decision Unit: Andean Regional

FY 1981 Annual Budget

Decision Package: **Minimum/AAPL**

Only one decision package is being presented for the Andean Regional program. Although the package must be presented as AAPL, it is considered the minimum package below which no adequate contribution can be made toward achieving the goals of the Small Program Strategy Statement. It should be recognized that the AAPL is significantly below the level projected in the Small Program Strategy Statement.

The AAPL, consisting of a pilot grant to technical secretariat (Junta) of the Andean Pact to facilitate horizontal transfer of rural development technology and a small loan to the Andean Development Corporation to initiate small farmer-oriented agroindustrial subblending will renew and emphasize USG's support for the Andean regional group in the context of a program which will address current regional problems, including rural poverty. It is critical to the success of our strategy to move forward with both projects in FY 81 in order to respond positively to Andean initiatives and encourage their focussing resources on the problems of rural poverty in the region. The program package also will permit initiation of program development activities to work with the Andean Group in various new areas of regional concern such as energy, science and technology development, and remote sensing.

The proposed package also is considered the minimum acceptable level of assistance to the Andean Pact in view of the interest of USG in supporting regional initiatives in Latin America and the Caribbean.

Bureau Code: Decision Code:

DECISION UNIT
ANDEAN REGIONAL

TABLE V - FY 1981 PROPOSED PROGRAM RANKING

RANK	DECISION PACKAGES/PROGRAM ACTIVITY		TERM/ NEW/ CONT.	LOAN/ GRANT	APPROP. ACCT.	PROGRAM FUNDING (\$000)				WORKFORCE (Number of Positions)						
	DESCRIPTION					INCR	CUM	INCR	CUM	INCR	CUM	INCR	CUM			
	<u>DECISION PACKAGE MINIMUM/AAPL</u>															
1.	595-0002	Rural Development Technology Network	N	G	FN	300	300	-	-	-	-	-	-			
2.	595-0001	Regional Agro-industrial Development	N	L	FN	4,500	4,800	-	-	-	-	-	-			
3.	595-0000	Program Development & Support	C	G	FN	100	4,900	-	-	-	-	-	-			
4.	595-0000	Program Development & Support	N	G	SD	100	5,000	-	-	-	-	-	-			

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